# '86 CHANGEMAKER: PEPSICO'S RESTAURAN

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NOVEMBER 26, 1986

A Cahners publication serving the total foodservice industry

# RESTAURANTS & INSTITUTIONS

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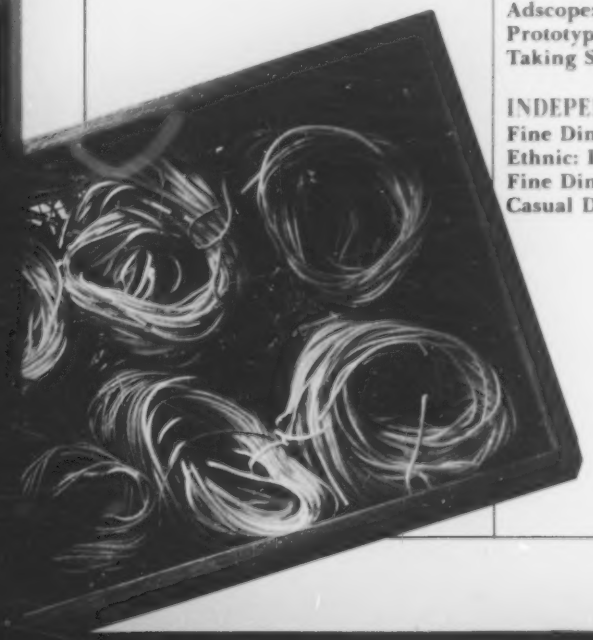


■ ECONOMIC EXPERTS

# New Tax Policy Could Help Foodservice

## But changing economic conditions might overshadow any losses or benefits.

Although economists are not giving the tax reform package high grades for its expected impact on economic growth, its passage creates certainty in the marketplace that allows both economists and businessmen to be more sanguine about the economy's future course.

At a recent meeting of the National Association of Business Economists (an association of practitioners rather than academics), tax reform was—not surprisingly—a hot issue.

According to Richard Kopcke, vice president at the Federal Reserve Bank of Boston, tax reform is an ongoing learning process. He says that the tax package might be a step in the right direction, but contrary to what the politicians say, "It's neither simple or neutral. It's written for today's economy. Under conditions of lower growth or higher inflation, it won't work."

And as Dr. Margot Thorning (a Washington insider and chief economist for the American Council on Capital Formation) sees it, politicians are "already undoing what hasn't even been signed into law." She cites recent remarks by U.S. Rep. Daniel Rostenkowski, chairman of the committee that developed the original House bill, as evidence of this assertion. He already has said that deficit reduction probably will require increases in the very tax rates lowered by reform.

She doesn't think that tax reform will outlast the next administration. And she even has doubts about whether it will outlast the current one.

**Impact on foodservice**

But because it took two years to accomplish, and because a comprehensive approach to tax reform is unlikely in the near future, it pays to take a closer look at how the foodservice industry might be affected by the new tax changes.

Tax reform lowers personal taxes at the expense of business taxes. For the foodservice industry, however, there's a silver lining to this shifting of tax burdens. Lower personal tax rates will make consumers a little wealthier, giving restaurateurs (and all retailers) a likely boost in sales.

Tax experts estimate that $120 billion in taxes will be shifted from the consumer to business. Expenditure surveys estimate that consumers spend roughly 5% of total expenditures on commercial eating out. If consumers spend rather than save their new-found wealth, therefore, the commercial segment of the industry could see $6 billion in additional revenue as a result of tax reform.

Because low-income consumers are expected to receive the biggest percentage cut in their personal income taxes, the greatest boost to the foodservice industry might go to the fast-food segment, already one of the fastest-growing segments of the industry.

Working against the foodservice industry, at least the fine-dining segment, is the fact that consumers will no longer be able to deduct credit-card interest from federal tax liability, reducing the attractiveness of purchases on credit. Most feel this will have a minor impact on consumption, however, since the current deduction isn't a great influence on purchases and the majority of consumers don't itemize anyway.

Of greater concern to foodservice entrepreneurs are the limits imposed on business-meal deductions. With deductibility reduced to 80% of expenditures from 100% today, fine-dining restaurants might see cutbacks in the number of business luncheons—especially for industries hit hard by other aspects of tax reform.

Ultimately, however, the tax reform controversy is really much ado about nothing. Each of the reforms are changes on the margin. This means that changing economic conditions—overall or within a particular industry—will far overshadow any losses or benefits from tax reform. Still, foodservice should come out a winner—so it can't be all bad.

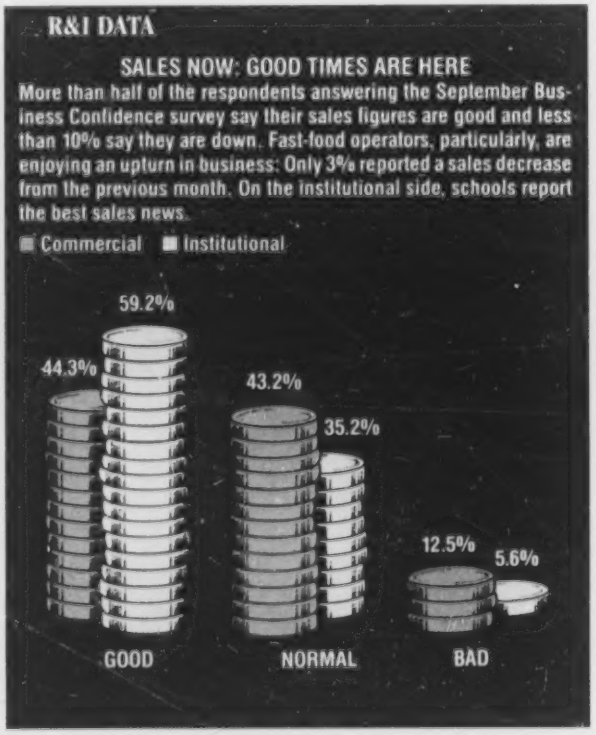
***—Kim Kennedy***

**Kim Kennedy is a member of Cahners Department of Economics.**

**R&I DATA**

**SALES NOW: GOOD TIMES ARE HERE**

More than half of the respondents answering the September Business Confidence survey say their sales figures are good and less than 10% say they are down. Fast-food operators, particularly, are enjoying an upturn in business: Only 3% reported a sales decrease from the previous month. On the institutional side, schools report the best sales news.

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## Circle K Offers New Microwavable Pizza

While convenience stores continue to lead the foodservice industry in real sales growth, Circle K continues to be one of the segment's leaders in innovative product development and marketing.

The 3,800-unit chain based in Phoenix rolled out its latest—crispy crust French Bread Pizza—into all of its stores last month. The product falls under the company's Deli Fresh brand line.

The item gives Circle K a stronger foothold in pizza, which it calls the fastest-growing product segment in the foodservice industry today. The product's special packaging allows it to take on conventional-oven-baked aspects upon heating in a microwave.

## Wendy's Unveils the Good Stuff: the Big Classic

September was a big month for Wendy's. The company put its new hamburger, the Big Classic, in a novel clamshell package and promoted it along with other Wendy's goods with a new tagline: "This is the good stuff."

While industry observers were calling the Big Classic Wendy's response to Burger King's Whopper and McDonald's McD.L.T., Wendy's officials were stressing other points. "Our intent throughout was to make the best better," says James Near, Wendy's president and chief operating officer. "The Big Classic was carefully planned for a year," says Linda Packer, Wendy's manager of marketing public relations.

"We found customers were looking for a big sandwich with a big taste."

And big the Big Classic is. It comes in quarter- and half-pound versions and is accompanied by ample amounts of tomatoes, mayonnaise, ketchup, pickles, onions and leaf lettuce. The ingredients are positioned in a specific order on a corn-dusted soft kaiser bun.

"What we found," says Michael Sapienza, Wendy's vice president of marketing analysis and new products, "is that the order of toppings makes a tremendous difference. The order in which toppings reach the customer's taste buds affects the taste of the sandwich, giving different 'flavor bursts.'" More than 5,200 consumers in six cities were questioned to determine the final order of products.

Customers also were used to help decide on the type of bun. The final product was selected in part because it is denser and able to hold all the condiments without becoming soggy and falling apart. Other Wendy's sandwiches can be ordered on the kaiser bun.

To package the burger, the company developed a clamshell-shaped foam container that resembles the Big Classic bun. The package is designed to keep the burger hot while holding the condiments and bun in place without crushing them.

**The Big Classic: According to Wendy's, "This is the Good Stuff."**

Consumers also had a hand in naming the sandwich. More than 500 names were suggested before the final decision was made. "The 'Big' is because it's a big sandwich," says Packer. "And 'Classic' because that's what we think it's going to become."

*—Howard Schlossberg*
*—Brad Stratton*

### R&I DATA

**AVERAGE MENU PRICES: SANDWICHES AGAIN SHOW MOST INCREASES**

*R&I* tracks average selling prices for a variety of menu items at restaurants across the country. While beverage prices were steady or even down in a few cases, sandwich prices again showed slight increases from the August survey.

| Item | Full service | Fast food | Hotel/ motel | North-east | South | North Central | West |
|---|---|---|---|---|---|---|---|
| **Beverages:** | | | | | | | |
| Coffee | $ .60 | $ .45 | $ .74 | $ .59 | $ .61 | $ .56 | $ .64 |
| Iced tea | .64 | .58 | .77 | .66 | .71 | .61 | .69 |
| Soft drinks | .74 | .59 | .78 | .66 | .75 | 66 | .75 |
| Beer | 1.57 | 1.07 | 1.59 | 1.41 | 1.89 | 1.24 | 1.59 |
| Wine (glass) | 1.64 | 1.37 | 1.77 | 1.48 | 1.71 | 1.60 | 1.89 |
| **Sandwiches:** | | | | | | | |
| Hamburger | 2.95 | 1.65 | 3.97 | 2.72 | 3.13 | 2.76 | 3.62 |
| Cheeseburger | 2.97 | 1.74 | 4.21 | 2.86 | 3.28 | 2.95 | 3.33 |
| Ham & cheese | 2.74 | 2.02 | 3.74 | 2.78 | 2.74 | 2.75 | 3.11 |
| Club | 3.77 | 2.41 | 4.57 | 3.85 | 3.73 | 3.50 | 4.36 |
| Fish | 2.86 | 1.75 | 4.04 | 2.54 | 2.84 | 2.34 | 1.76 |
| Chicken patty | 2.78 | 2.14 | 3.80 | 2.62 | 2.66 | 2.61 | 2.34 |
| **Other:** | | | | | | | |
| Chili | 2.53 | 1.31 | 2.10 | 2.53 | 1.70 | 1.45 | 1.45 |
| French fries | .93 | .76 | 1.71 | 1.81 | .86 | .89 | .87 |
| Scrambled eggs | 1.47 | 1.06 | 2.30 | 1.74 | 1.89 | 1.32 | 2.57 |

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RESTAURANTS & INSTITUTIONS

■ HUMAN RESOURCES

# ACF Gains Momentum

## American Culinary Federation members applaud toughened standards, recognize achievements.

**Lt. Gen. John D. McLaughlin, U.S.A. (Ret.), pres. of L.J. Minor Corp., which funded the ACF's new CEC ring design, presents a ring to Pres. Baron Galand.**

As coordinator of education for the American Culinary Federation's Educational Institute, Bill Jacoby's new position signals an intensification of the ACF's already-serious commitment to its educational program.

"It is critical that we expand our blossoming program of accrediting culinary arts schools," Jacoby says. "If we as professional chefs do not structure chef education, others less knowledgeable will be glad to."

Apprenticeship is a key part of the ACF educational program, of course, and one that requires constant, effective communication. "I will be working very closely to maintain good communication between the national office and the local apprenticeship chairs," Jacoby says.

## Apprenticeship Right on Mark Today

Although many adults want to start college or return to it, three out of four believe college costs are headed out of the average person's reach, according to a survey sponsored by the Council for the Support and Advancement of Education and the New England Board of Higher Education.

Half of the 1,004 survey respondents said they feel less able to pay for college today than they did five years ago. More than two-thirds said they would choose a vocational-technical school, a four-year public college or a community college over a private college.

*—Elizabeth Faulkner*

**The exclusive gold CEC ring can be worn by qualified certified executive chefs.**

### 8MM VIDEO: WAVE OF THE FUTURE

**While employers all over the country waffle on what format to go with for employee-training videos, Pizza Hut has boldly launched a national video network based on 8mm equipment.**

**To support its move into large-scale delivery, the company purchased 600 sets of 8mm recorders and players to put in their delivery units and in metropolitan customer-service centers.**

**"We're establishing a new network of delivery units, so it makes sense to go with the format of the future" says G.E. Lessard, director of delivery training. "The format's size and the obvious cost savings in storage and mailing are important to us."**

**By the end of this year, more than 10,000 Pizza Hut employees will be trained with the aid of 10 initial videotaped programs on topics such as company orientation for new employees, product preparation, driver training, workplace safety, customer relations and management skills. The company's previous training program was based on films and slides. —E.F.**

■ R&I DATA

### WHAT IS A TRAINEE WORTH? CONSENSUS ELUDES INDUSTRY

Management-trainee salaries reported in September are a telling sign of the industry's ambivalence toward its labor investment. Operators in the West offered trainees an average of $21,832; those in the South, $10,855.

| | Northeast | North Central | Southwest | West | Average commercial | Average institutional |
|---|---|---|---|---|---|---|
| Executive chef* | $26,746 | $29,412 | $25,410 | $27,909 | $27,197 | $29,811 |
| Manager* | 23,230 | 20,095 | 19,590 | 15,132 | 20,656 | 18,761 |
| Asst. manager* | 17,106 | 14,796 | 14,898 | 15,594 | 15,556 | 15,392 |
| Mgmt. trainee* | 15,143 | 14,196 | 10,855 | 21,832 | 16,759 | 11,647 |
| Cook** | 254 | 192 | 180 | 217 | 202 | 215 |
| Dishwasher** | 171 | 138 | 144 | 150 | 148 | 154 |

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